City of Lafayette Staff Report

For:	Lafayette City Council
By:	Steven Falk, Lafayette City Manager Tracy Robinson, Administrative Services Director
Date Written:	July 9, 2008
Meeting Date:	July 14, 2008
Subject:	Consideration of Local Sales Tax Increment for November Ballot

---

Background

At the meeting on June 23, the Lafayette City Council received a report from Godbe Research summarizing the results of this spring's voter attitude survey in Lafayette. Based upon completed surveys of 600 voters in the City, Godbe reported that a sales tax measure is favorably received by Lafayette voters, with 59% indicating support even after hearing a series of arguments against the measure. With a margin of error of 5.6%, the results suggest that the City might be poised to pass such a measure. Godbe reported, further, that the tax proposal gains support when the rate is lowered below 1% and a fixed term is attached to the collection of the tax.

After receiving these findings, the City Council directed staff to undertake several tasks:

1. Draft a ballot measure for consideration by the City Council and public at the 7/14 and 7/28 meetings;

2. Launch efforts to notify residents of the City Council's discussions regarding a November sales tax measure;

3. Prepare two non-binding draft expenditure plans for funds that would be generated by the tax if a measure was placed on the ballot and approved by voters;

4. Prepare a discussion regarding how an audit of such funds might successfully be conducted;

5. Search for and summarize data regarding if and how an increased local sales tax would impact local merchants;

7B

6. Prepare draft schedule for a public information program that would be launched if Council chooses to place measure on November ballot.

Staff addresses these tasks in order, below.

Council Tasks

1. ***Draft Ballot Question***

   City of Lafayette General Sales Tax

   "To maintain and improve general city services in Lafayette, such as: fixing potholes; paving and maintaining 99 miles of city/neighborhood streets and roads; supporting the Lafayette Police Department, including patrols, neighborhood watch and crime prevention; and preserving parks and open space for recreation and to prevent hillside development; shall the City of Lafayette enact a ¾ cent transactions and use (sales) tax for 9 years with independent audits and all funds staying in our community?"

2. ***Public Notification***

To notify the public about the City Council's discussions and deliberations, staff (will) place(d) a banner in the banner box for each of the three days immediately preceding the meetings on 7/14 and 7/28. Staff also prepared and distributed the a press release to the Lamorinda Sun, Lamorinda Weekly, Lafayette Today, the Lafayette Homeowners' Council, the Lafayette Chamber of Commerce, and to other leading community organizations describing the Council's interest in considering this matter.

3. ***Draft Revenue Projection and Expenditure Plan***

Lafayette's civic needs have been widely discussed and considered. On four separate occasions over the last ten years, the City has unsuccessfully asked voters to support special tax measures requiring 2/3 approval for police and roads. More recently, Lafayette asked property owners to increase the assessments charged on downtown properties to cover increasing maintenance costs in the downtown core area. This proposal, too, was rejected.

The City needs additional annual funding streams to provide municipal services that are consistent with the City's mission and meet the demands of today's residents and businesses.

Lafayette does not currently collect additional sales taxes beyond those directed to the City by the State. Buyers in Lafayette currently pay an 8.25% sales tax rate, with the Lafayette receiving 1.0% and the other 7.25% diverted to other government agencies and uses. Thus, for every $100 taxable purchase made in Lafayette, the City receives $1.

Total sales tax receipts for Lafayette for the last several years are indicated in Table A, below:

Table A
Sales Tax Receipts in Lafayette
2002 through 2008

2002/3	2003/4	2004/5	2005/6	2006/7	2007/8 Estimated
$2,255,221	$2,316,883	$2,614,419	$2,513,865	$2,621,785	$2,734,904

Given this history, staff forecasts that a 1% sales tax increment would deliver $2.66M in new revenue to Lafayette. **If approved by voters, a 3/4% sales tax increment would generate approximately $2.0M annually in new revenues.**

Given this information and per Council direction, staff has prepared two alternative expenditure plans, below for Council consideration, neither of which would bind this Council or future Councils.

Expenditure Plan A: Balanced Plan

Repaired Roads: 50% of proceeds (~$1.0M annually)
More than 4,000 residents live on failed roads in Lafayette. The City has identified $44M in roadwork that should be completed during the next ten years, but only $20M in secure funding is available for this purpose. Another $10M in resources is less certain but may become available during the same period. Under this expenditure plan, a third of the known $24M gap could be funded by the sales tax increment over a 9 year period.

Downtown Beautiful: 25% of proceeds (~$500,000 annually)
Facing an operational deficit for downtown maintenance and following the defeat of a downtown assessment district that would have plugged that deficit, Lafayette needs an estimated $250,000 to continue to provide top quality beautification and maintenance for current improvements to the downtown and another $250,000 to fund and maintain improvements that emerge from the City's Downtown Strategic Plan. These funds will assure that the twinkle lights, the banner program, downtown landscaping, parking facilities, and many other services that enliven and enrich downtown Lafayette are preserved and enhanced.

Expanded Parks and Preserved Open Space: 15% of proceeds (~$300,000 annually)
Lafayette provides few active recreation facilities such as tot-lots, dog parks, swimming pools, recreation centers, tennis courts, or other typical municipal park offerings -- surprising for an affluent town purporting to cater to families. Meanwhile, the City has nearly completed its long term Parks Master Plan, which will identify the community's recreational needs. This annual infusion of $300,000 would be deposited into a protected account to maintain, expand, and acquire new park facilities and open space in Lafayette as it becomes available and in accordance with the City's new Parks Master Plan.

Downtown Patrol: 10% of proceeds (~$200,000 annually)
Despite rising crime statistics and more than 20,000 calls for service each year, Lafayette provides the lowest levels of per-capita police staffing in Contra Costa County. Meanwhile, due to its own catastrophic budget problems, the State of California is likely to eliminate the annual Community Oriented Policing Solutions (COPS) grant that Lafayette has received for almost a decade. These funds have paid for a portion of an additional officer dedicated to patrolling the downtown area, and whose goal is to spend 50% of his time on the bicycle in downtown Lafayette. These funds would backfill this loss from the State and relieve the City from having to eliminate this position.

Expenditure Plan B: Road Emphasis

Repairing Roads: 80% of proceeds (~$1.6M annually)
More than 4,000 residents live on failed roads in Lafayette. The City has identified $44M in roadwork that should be completed during the next ten years, but only $20M in secure funding is available for this purpose. Another $10M in resources is less certain but may become available during the same period. If this plan and the tax were adopted, more than half of the known $24M gap could be funded by the sales tax increment over a 9 year period.

Expanding Parks and Preserving Open Space: 10% of proceeds (~$200,000 annually)
Lafayette provides few active recreation facilities such as tot-lots, dog parks, swimming pools, recreation centers, tennis courts, or other typical municipal park offerings -- surprising for an affluent town purporting to cater to families. Meanwhile, the City has nearly completed its long term Parks Master Plan, which will identify the community's recreational needs. This annual infusion of $200,000 would be deposited into a protected account to maintain, expand, and acquire new park facilities and open space in Lafayette as it becomes available and in accordance with the City's new Parks Master Plan.

Downtown Patrol: 10% of proceeds (~$200,000 annually)
Despite rising crime statistics and more than 20,000 calls for service each year, Lafayette provides the lowest levels of per-capita police staffing in Contra Costa County. Meanwhile, due to its own catastrophic budget problems, the State of California is likely to eliminate the annual Community Oriented Policing Solutions (COPS) grant that Lafayette has received for almost a decade. These funds have paid for a portion of an additional officer dedicated to patrolling the downtown area, and whose goal is to spend 50% of his time on the bicycle in downtown Lafayette. These funds would backfill this loss from the State and relieve the City from having to eliminate this position.

4. Audit Procedure

The City Council sought information regarding how, if a sales tax measure were approved, an effective audit might be conducted.

In the event that the Council places the measure on the ballot and the tax does pass, staff proposes that all tax proceeds be deposited into a sub-fund that is wholly subsidiary to the City's general fund. Once the money was poured into this sub-fund, the Council would annually, as part of the budget process, direct staff regarding how those proceeds should be used. The funds would then be transferred accordingly, to, for example, Fund 14 (Road Improvement Projects), Fund 73 (Supplemental Law Enforcement Services), or Fund 12 (Parks Facilities). This would guarantee that these funds were being used for general City purposes and also create a distinct trail of accountability that could be easily tracked and recorded in each annual budget and with each annual audit.

5. How Would Sales Tax Increment Effect Local Businesses

Staff has scoured the internet and not found useful large-number or statistical reliable studies that can allow Lafayette to predict if and how new tax increment would effect local retail sales. Common sense and economic theory would suggest that if the price for an identical good were higher in Lafayette than in other communities, shoppers might choose to shop elsewhere. On the other hand, transportation costs are rising and may swamp whatever savings might otherwise be achieved. Lafayette is also a notably convenient place for local residents to shop, with easy parking and access; this, too, may counteract the inclination to shop in other communities.

Given these uncertainties and the lack of useful studies, discussion and conclusions about the effect of local sales taxes is often based on hunches and anecdotal information, neither of which may be predictive.

To better learn about how these issues might play out, Lafayette conducted a phone survey of 15 cities that have local sales tax increments. Table B, below, summarizes the results.

Ten of fifteen cities that collect a local sales tax increment have not experienced a decline in sales as a result of the new tax. Note, however, that because many of these cities are not located in urbanized areas, residents may not have the easy opportunity to shop elsewhere. Cities that are more tightly clustered may or may not have a different experience.

Table B

Survey of City Finance Directors and City Managers

Regarding Local Sales Tax Increments

City	Local Increment	Eff. Date	Effect on Sales	Chamber Support?
Placerville	.25	Apr-99	none	yes
South Lake Tahoe	.50	Apr-05	none	yes
Truckee	.50	Oct-98	none	yes
Montclair	.25	Apr-05	none	yes
El Cajon	.50	Apr-05	none	no
Santa Cruz	.25	Jul-05	none	yes
Santa Rosa	.25	Apr-05	none	yes
Sebastapol	.13	Apr-05	none	yes
Visalia	.25	Jul-05	none	yes
Woodland	.50	Jul-00	none	yes
Fort Bragg	.50	Jan-05	possible decrease	yes
Lakeport	.50	Apr-05	unknown	yes
Ukiah	.50	Oct-05	unknown	yes
Capitola	.25	Apr-05	unknown	yes
El Cerrito	.50	Feb-08	unknown	yes

6. Prepare a Draft Schedule for a Public Information Program

If Council chooses to proceed and place a sales tax measure on the November ballot, staff suggests that the City immediately send an informational letter to each household in the community explaining the measure that has been placed on the ballot, the city's unfunded needs that prompt the ballot measure, and the current lack of alternative sources of funding.

Following this letter, the summer *Vistas* community-wide newsletter would introduce the matter to Lafayette residents as a front page article, with a target delivery date of mid-August.

The Fall *Vistas* would then be entirely dedicated to the matter, to present a comprehensive and unbiased exposition of the issues. This newsletter will include frequently asked questions and a link to the City's website where additional information will be available along with a mechanism for submitting questions for answers by city staff. We would expect this fall issue to drop in mailboxes in early September.

Recommendation

Receive public testimony. Direct staff to prepare ballot resolution for consideration by Council at its meeting on July 28, 2008.